

10 THINGS TO DO

Before You Sign on the Dotted Line...

IF YOU ARE THINKING ABOUT GETTING A LOAN TO PURCHASE A HOME, refinancing, or borrowing money for home repairs, make sure you get the *right loan* to meet your needs. Asking questions and understanding the loan process can save you and your family from excessive fees and possibly foreclosure. For assistance and referrals on home loans contact, Don't Borrow Trouble Silicon Valley at 408.283.1284, or visit our website at www.sjhousing.org.

Helpful Tips

- 1 **DO YOUR HOMEWORK** Familiarize yourself with the home loan process and what you can afford. Attend a homeownership education course or meet with a homeownership counselor. These services are available locally and often without a fee.
- 2 **KNOW YOUR CREDIT RATING** Understand your credit rating and its impact on your loan qualifications. Obtain a copy of your credit report and review it with your mortgage counselor. Visit www.sjhousing.org for information on where to obtain a copy of your credit report.
- 3 **SHOP AROUND** Get the best loan for your needs. Question loan offers made by mail, over the Internet or telephone, or by someone who comes to your door uninvited. Talk to at least three lenders, get a "Good Faith Estimate" from each lender, and compare their fees and the total cost of the loan.
- 4 **CHOOSE YOUR LOAN AGENT WISELY** Beware of anyone who tells you to falsify information on the loan application.
- 5 **CHECK YOUR LOAN AGENT'S QUALIFICATIONS** Ask your loan officer if they are licensed to originate mortgage loans and confirm it with the California Department of Real Estate at www.dre.cahwnet.gov. If they are a mortgage broker, ask if they are a member of the California Association of Mortgage Brokers.
- 6 **ASK FOR CLARIFICATION** Understand all of the costs and fees in your loan. If any of the items in your loan contract are not clear, **Ask Questions!** Don't sign anything you don't completely understand.
- 7 **ENSURE AFFORDABILITY** Make sure you can afford the loan's monthly payments, especially if it has a variable interest rate. Ask what the maximum monthly payment would be over the life of the loan. Don't agree to a loan program with payments you cannot comfortably afford.
- 8 **TAKE CHARGE** Don't let anyone pressure you to sign a contract. A good deal today should be available tomorrow.
- 9 **COMPLETE CONTRACTS** Don't sign any blank forms or documents that aren't filled in completely. If an item is supposed to be blank, draw a line through the space and initial.
- 10 **READ AND REVIEW** Make sure the loan contract contains only the terms to which you agreed. Request your loan documents three days before escrow closes. Bring the completed loan documents to a mortgage counselor for review.

Know What You're Signing

ADJUSTABLE-RATE MORTGAGE (ARM) An ARM's interest rate will increase or decrease over the life of the loan, impacting your loan payments. An ARM, also known as a Variable Rate loan, usually has an attractive initial low interest rate. To fully understand the long-term cost of the loan, you need to know the maximum interest rate you could be required to pay.

ANNUAL PERCENTAGE RATE (APR) The cost of credit expressed as a yearly rate. May include interest rate, points, broker fees, and other credit charges that the borrower is required to pay.

BALLOON PAYMENT A large single payment at the end of the loan term because the monthly payments are too low to pay off the entire loan amount.

CLOSING or SETTLEMENT The meeting where loan documents are reviewed and signed.

CLOSING COSTS Fees required by the lender at closing. While the fees can vary among lending institutions, many include one-time processing fees such as application, origination or appraisal fees, points, title search, or title insurance. Find out what closing costs will be charged before the closing and which fees may be negotiable. If you are unsure about any of the fees, ask for clarification.

CREDIT INSURANCE A loan option that repays the lender should the borrower die or become disabled. In the case of single-premium credit insurance, the full premium is paid all at once by being added to the amount financed in the loan rather than on a monthly basis. Adding the full premium to the amount of the loan will increase the amount of interest you pay over the life of the loan.

EQUITY The difference between what a property is worth and what the owner owes against that property, (*i.e. the difference between the house value and the remaining mortgage or loan payments*).

FIXED RATE MORTGAGE Loans in which the interest rate remains the same over the life of the loan.

HOME-EQUITY LOAN A cash loan in which the homeowner borrows against the equity in their home. The loan is secured by using the home as collateral.

INTEREST The fee paid to borrow money. It is a percentage of the amount borrowed.

MORTGAGE Generally refers to a loan that finances the purchase of real estate, usually with specified payment periods and interest rates. The mortgage lender has the right to take the property if the borrower fails to make loan payments.

POINTS or LOAN DISCOUNT POINTS A one-time charge by a lender to lower the interest rate on a loan. Each point is equal to 1 percent of the loan amount. For example, one point on a \$100,000 loan would cost \$1,000. Points may be negotiable at closing.

PREPAYMENT PENALTY A penalty some lenders charge for paying a loan off early. Before signing loan papers, check to see if your loan has a penalty and how long it will be in effect. If you think you might make early payments, or sell your home before the loan is paid off, the prepayment penalty could be costly.

PRINCIPAL The amount of money borrowed or that remains unpaid.

REFINANCING The process of paying off one loan with the proceeds from a new loan secured by the same home or property, generally to secure a lower interest payment.

SECOND MORTGAGE A second loan on the property that is recorded after the first loan. A Home Equity Line of Credit (HELOC) is normally recorded as a second mortgage.

*Asking questions and understanding your home loan can save you time, money ... and even your home!
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